



Control Number: 51415



Item Number: 396

Addendum StartPage: 0

SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

FILED
2021 APR 23 PM 2:42
PUC

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

REBUTTAL TESTIMONY OF
ANDREW R. CARLIN
FOR
SOUTHWESTERN ELECTRIC POWER COMPANY

APRIL 23, 2021

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1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

3 A. My name is Andrew (Andy) R. Carlin. My business address is 1 Riverside Plaza,
4 Columbus, Ohio 43215. My position is Director of Compensation & Executive
5 Benefits for the American Electric Power Service Corporation (AEPSC), a wholly
6 owned subsidiary of American Electric Power Company, Inc. (AEP). AEP is the parent
7 company of Southwestern Electric Power Company (SWEPCO). AEPSC supplies
8 engineering, financing, accounting, human resources and similar administrative,
9 planning and advisory services to AEP's regulated operating companies and other AEP
10 subsidiaries. In this testimony I will refer to SWEPCO as the "Company" or
11 "SWEPCO" and to SWEPCO and AEPSC collectively as the "Companies."

12 Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

13 A. Yes.

14 II. PURPOSE OF REBUTTAL TESTIMONY

15 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

16 A. The purpose of my rebuttal testimony is to respond to certain recommendations
17 concerning incentive compensation made by Cities Advocating Reasonable
18 Deregulation (CARD) witness Mark E. Garrett (M. Garrett), Office of Public Utility
19 Counsel (OPUC) witness Constance T. Cannady (Cannady), and Public Utility
20 Commission of Texas Staff (Staff) witness Ruth Stark (Stark). Each of those witnesses
21 makes recommendations concerning short-term incentive compensation that are
22 addressed in this testimony. I will also respond to M. Garrett's proposed exclusion of

1 restricted stock unit (RSU) expense irrespective of the fact that this type of long-term
2 incentive compensation has no performance measures whatsoever, financial or
3 otherwise. Finally, I will address the proposed exclusion of attendant payroll tax
4 expense related to proposed incentive compensation adjustments even though that
5 expense would be necessary and in customers' interests for the Company to incur
6 irrespective of whether such incentive compensation was eliminated.

7 III. SHORT-TERM INCENTIVE (STI) COMPENSATION

8 Q. PLEASE DESCRIBE THE SHORT-TERM INCENTIVE COMPENSATION
9 EXPENSE REQUESTED BY THE COMPANY.

10 A. Consistent with the Public Utility Commission of Texas' (Commission) ruling in
11 SWEPCO's previous rate case (Docket No. 46449), the Company adjusted test year
12 STI expense for both SWEPCO and AEPSC to the target level, removed the portion of
13 the direct expense related to financial goals, and removed half of the portion of the
14 funding measures related to financial goals.

15 Q. WHAT ARE THE STAFF AND INTERVENOR RECOMMENDATIONS WITH
16 RESPECT TO ANNUAL (SHORT-TERM) INCENTIVE COMPENSATION?

17 A. OPUC witness Cannady and CARD witness M. Garrett both recommend substantial
18 additional adjustments beyond the Company's adjustments to STI compensation. Staff
19 witness Stark recommends only minor adjustments to correct errors that the Company
20 identified in RFI responses and agrees with.

21 Specifically, OPUC witness Cannady recommends an adjustment that replaces
22 the test year level of target STI with the lower 2019 level of target STI. Cannady also

1 recommends removing STI related to financially based goals for union represented
2 employees, which the Company did not remove in light of Public Utilities Regulatory
3 Act (PURA) § 14.006, which provides that “An employee wage rate or benefit that is
4 the product of the collective bargaining is presumed to be reasonable” and that “The
5 commission may not interfere with employee wages and benefits, working conditions,
6 or other terms or conditions of employment that are the product of a collective
7 bargaining agreement recognized under federal law.”¹

8 CARD Witness M. Garrett recommends removing additional annual incentive
9 expense for the full test year for two reasons. His first reason for this full test year
10 adjustment is to reflect a change in the funding mechanism that was made for 2020
11 only from 70% to 100% operating earnings per share (EPS). Although this change in
12 the funding mechanism affected only the last quarter of the test year, M. Garrett’s
13 recommendation removes this STI expense for the full test year. His second reason is
14 that he believes the Commission should change its practice to consider the funding
15 trigger aspect of the financial funding measure as tainting all STI funding as financial,
16 whether the funding measures are financial or otherwise. M. Garrett also recommends
17 removing attendant payroll taxes related to the above adjustment.

18 Q. WHY DOES WITNESS CANNADY RECOMMEND AN ADJUSTMENT THAT
19 REPLACES THE TEST YEAR TARGET LEVEL OF STI EXPENSE WITH THE
20 2019 LEVEL OF THIS EXPENSE?

¹ PURA § 14.006.

1 A. She states that the Company's adjustment did not include the expected payment for
2 2020 performance at the total amount expected to be awarded.²

3 Q. DO YOU AGREE WITH THIS STATEMENT?

4 A. No. The Companies accrued Q1 2020 STI expense at the target level. This Q1 2020
5 accrual was not subsequently restated or adjusted, although later quarter accruals were
6 booked at below target levels before the final full year accrual finished the year
7 substantially above the target level at 156.9% of target. Furthermore, Cannady's
8 argument obfuscates the fact that the target level of STI is not likely to ever be the
9 amount actually paid but is instead the amount necessary to bring the Companies' target
10 Total Compensation for employees to reasonable and market-competitive levels as well
11 as the minimum amount expected to be paid on average over time. It is for these reasons
12 that the Company has consistently adjusted its requested level of STI compensation to
13 the target level, irrespective of the then current actual or forecasted level of STI
14 expense. The Commission has accepted this practice in previous SWEPCO rate cases.³

15 The Companies' STI awards have averaged substantially above target over the
16 last 5 and 10 years, at 147% and 152%, respectively, including the awards for 2020 that
17 were paid in March of 2021. While past results are not necessarily indicative of future
18 performance, this payout history leaves no doubt about the Companies' commitment
19 to provide incentive compensation that is designed to provide awards at or above the
20 target level on average over time.

² Redacted Direct Testimony and Workpapers of Constance T. Cannady on Behalf of the Office of Public Utility Counsel (Cannady Direct), p. 37, lines 8-11.

³ PUC Docket No. 46449 and PUC Docket No. 40443

1 Q. WHAT OTHER REASONS DOES WITNESS CANNADY CITE FOR
2 RECOMMENDING AN ADJUSTMENT THAT REPLACES THE TEST YEAR
3 TARGET LEVEL OF STI EXPENSE WITH THE 2019 LEVEL OF THIS EXPENSE?

4 A. She states that the requested STI “was not based on a known and measurable STI
5 compensation payout at the time of the filing, or even up until the STI compensation
6 was actually awarded in 2021.”

7 Q. WHAT ARE YOUR CONCERNS WITH THIS STATEMENT?

8 A. Again, the target level of STI is not likely to ever be the amount actually paid but is
9 instead the amount necessary to bring the Companies’ target Total Compensation for
10 employees to reasonable and market-competitive levels as well as the minimum amount
11 expected to be paid on average over time. Furthermore, the target level of STI
12 compensation is precisely known and measurable at any given time and is generally
13 lower than the actual amount of STI paid.

14 Q. WHAT IS WITNESS CANNADY’S POSITION WITH RESPECT TO THE
15 PERCENTAGE OF THE FINANCIAL FUNDING MEASURES TO BE REMOVED?

16 A. She recommends removing 50% of the financially-based funding mechanism (50% of
17 a 70% funding mechanism; or 35%), which is the same portion that the Company
18 removed from its requested cost of service.

19 Q. WHY DOES WITNESS CANNADY RECOMMEND REMOVING STI RELATED
20 TO FINANCIALLY-BASED GOALS FOR UNION REPRESENTED
21 EMPLOYEES?

22 A. Irrespective of PURA § 14.006, she does not agree that for ratemaking purposes the
23 STI compensation awarded to union employees can justifiably include STI

1 compensation awarded on the basis of financial performance measures. While Cannady
2 concedes that the collective bargaining agreement between AEP (including SWEPCO)
3 and the International Brotherhood of Electrical Workers specifies that union employees
4 will participate in AEP's STI program,⁴ she argues that, "The agreement does not
5 provide for any guaranteed amounts or other descriptions that would lead to the
6 conclusion that an adjustment to STI compensation for ratemaking purposes would be
7 a violation of PURA § 14.006."⁵

8 Q. DO YOU AGREE WITH HER POSITION?

9 A. No. PURA § 14.006 does not require collectively bargained compensation and benefits
10 to be guaranteed or described in the collective bargaining agreement and the concept
11 of guaranteed incentive compensation is, in fact, an oxymoron. The Company's request
12 for recovery of the target level of STI for union represented employees is based on the
13 presumption in PURA § 14.006 that employee wages and benefits that are the product
14 of collective bargaining are reasonable. Collective bargaining agreements with the
15 Companies' have included this STI participation language for decades. Therefore, the
16 resulting STI compensation for union employees is clearly the product of collective
17 bargaining and is presumed to be reasonable. Wages and benefits that are presumed
18 reasonable by law should be included in the Company's cost of service. Treating
19 collectively bargained STI compensation as unreasonable would be a violation of
20 PURA § 14.006. Furthermore, if recovery of the target level of collectively bargained
21 STI expense is denied, then this expense would further burden the Company's

⁴ Cannady Direct, p. 39, lines 9-16.

⁵ Id., lines 17-19.

1 shareholders causing the Company to renegotiate collective bargaining agreements to
2 reduce or eliminate such STI expense in favor of additional base pay, which would
3 interfere with collectively bargained compensation in violation of PURA § 14.006.
4 Treating collectively bargained STI expense the same as STI expense for other
5 employees would ignore the treatment of such wages provided under the law and would
6 be inconsistent with the Commission's treatment of such compensation in SWEPCO's
7 prior cases.

8 Q. WHY DOES M. GARRETT CONTEND THAT AN ADDITIONAL PORTION (15%)
9 OF TEST YEAR STI EXPENSE SHOULD BE REMOVED FROM THE
10 COMPANY'S COST OF SERVICE?

11 A. His first rationale is that this additional expense should be removed because the
12 Companies changed the financial funding mechanism to 100% operating EPS for the
13 final quarter of the test year.

14 Q. DO YOU DISAGREE WITH THIS RECOMMENDATION?

15 A. I disagree with this rationale for several reasons. First, this change only affected the
16 last quarter of the test year, not the three-quarters of the test year that fell in 2019.
17 Therefore, M. Garrett's proposed reduction is substantially overstated even if it were
18 otherwise reasonable. Second, this change was specifically limited at the time it was
19 implemented to 2020 STI only. Therefore it is not indicative of the Companies' STI
20 practices going forward, prior to 2020, or for the majority of the test year. In fact, the
21 2021 funding mechanism has now been established at 60% EPS. Third, this change was
22 made to increase the Companies' stability at a time of unprecedented uncertainty due
23 to the unknown economic impact and potential risks posed by the spread of COVID-

1 19 on the Company and its customers, particularly the commercial and industrial
2 customers. Bolstering the Company's stability at this time produced positive benefits
3 and cost savings for all of the Companies' stakeholders, including customers, by better
4 ensuring that the Company maintained access to capital at reasonable rates. As noted
5 in my direct testimony, this change to the incentive compensation funding mechanism
6 was a temporary change made for 2020 only because of the uncertainty and economic
7 risks of the COVID-19 pandemic. As such, it does not represent the Companies'
8 funding mechanism either before or after the one-year change.

9 Q. WHAT OTHER REASONS DOES M. GARRETT PROVIDE IN SUPPORT FOR HIS
10 POSITION THAT AN ADDITIONAL PORTION OF TEST YEAR STI EXPENSE
11 SHOULD BE REMOVED FROM THE COMPANY'S COST OF SERVICE?

12 A. M. Garrett contends that, "It clear (sic) that the AEP annual incentive plans currently
13 have a 100% financial performance requirement to be funded"⁶ because the
14 Companies' STI plans include a financial funding trigger and management has the
15 discretion to change the plan.

16 Q. IS THIS A VALID REASON TO DISALLOW AN ADDITIONAL PORTION OF STI
17 EXPENSE?

18 A. No, for several reasons. First, the financial funding trigger has been in place in AEP's
19 annual incentive plans for many years, and the Commission has considered its
20 treatment, most recently with respect to SWEPCO in Docket No. 46449. In this case,
21 the Commission's practice was to remove 50% of the weight assigned to the AEP

⁶ Direct Testimony and Exhibits of Mark E. Garrett on Behalf of Cities Advocating Reasonable Deregulation (M. Garrett Direct), p. 18, lines 6-7.

1 operating EPS measure, rather than treat the entirety of funding measures as
2 financially-based due to the funding trigger. Therefore, with this recommendation, M.
3 Garrett is arguing for a change in this Commission practice.

4 Second, neither this trigger nor the discretion afforded to the Company in its
5 annual incentive plan meaningfully distinguishes AEP's STI plans from STI plans at
6 nearly all other companies. In my experience, broad-based STI plans in the utility
7 industry and other U.S. industries are rarely designed to create a contractual payment
8 obligation, because doing so would bar reasonable interpretation and it is impractical
9 to address all potential contingencies that should be addressed in an STI program.
10 Creating such a contractual obligation is, in my opinion, a poor pay practice that has a
11 significant likelihood of leading to negative consequences for the employer and its
12 other stakeholders, including its customers. As such, nearly all incentive plans allow
13 employers to make changes and interpretations whether this is explicit or implicit in
14 the STI plan. Furthermore, as was the case with PG&E shortly before and during its
15 bankruptcy, employers in financial or other distress may not be willing and able to
16 make good on contractual STI obligations, which also is likely to result in the reduction
17 or elimination of such incentive compensation.

18 Third, AEP's STI plans have met the financial funding trigger each year for the
19 many years such a trigger has been in place with no exceptions or close calls. This is
20 largely because it is not in the Company's interest to set financial-funding objectives
21 or discretionarily reduce incentive compensation in a manner that reduces the perceived
22 value of STI compensation to employees without an offsetting increase in base pay.
23 Doing so would impair the Company's ability to attract, motivate, engage and retain

1 the employees it needs to operate its utility business efficiently and effectively. In turn
2 this would increase employee attrition, particularly among the highest performing
3 employees, and lead to reduced performance and increased overall costs to the
4 Company due to the high cost and lost productivity associated with replacing and
5 training new employees. None of this would be in customers' interest.

6 Furthermore, the financial-funding trigger and the Company's discretion with
7 respect to incentive compensation applies to all incentive compensation, not just
8 financially based incentive compensation, so it is illogical to use this argument as
9 justification for eliminating the cost associated with financially based incentive
10 compensation and not all incentive compensation. The Commission's rulings in many
11 prior rate cases indicate that the Commission sees value for customers in operationally
12 based incentive compensation measures.

13 Q. HOW HAS M. GARRETT MISCHARACTERISED YOUR DIRECT TESTIMONY?

14 A. M. Garrett states that I argue that, "there is merit to the Commission reconsidering its
15 practice of excluding financially-based incentives."⁷ To the contrary, despite my
16 disagreement with the Commission's practices with respect to the treatment of
17 incentive compensation, I only provided evidence in support of a change in these
18 practices in the event that anticipated legislation was enacted. It now appears that the
19 anticipated legislation will not be enacted because of more pressing matters. The
20 Company understands that it is the Commission's practice that rate case expense
21 associated with proposing a change in the Commission's practice concerning

⁷ M. Garrett Direct, p 19, lines 10-13

1 financially based incentive compensation be borne by the requestor. In light of this
2 Commission practice, the Company is not providing rebuttal evidence with respect to
3 M. Garrett's general rationale or survey information concerning treatment of
4 financially based incentive compensation.

5 Q. WHAT IS SWEPCO'S RESPONSE TO THE ADJUSTMENTS RECOMMENDED
6 BY STAFF WITNESS STARK?

7 A. Ms. Stark does not join in the recommended adjustments by M. Garrett and Cannady
8 based on STI target levels, test year adjustments, or collective bargaining
9 compensation. As noted in her testimony, her proposed adjustments are based on errors
10 identified by SWEPCO in discovery, and SWEPCO agrees with those adjustments.

11 IV. LONG-TERM INCENTIVE (LTI) COMPENSATION

12 Q. PLEASE DESCRIBE THE LTI COMPENSATION EXPENSE REQUESTED BY
13 THE COMPANY.

14 A. Consistent with the Commission's ruling in SWEPCO's previous rate case (Docket No.
15 46449), the Company adjusted test year LTI expense for both SWEPCO and AEPSC
16 to remove the performance unit portion (75%) and is only requesting the target level of
17 the restricted stock unit (RSU) portion because RSUs do not have any performance
18 measures whatsoever.

19 Q. WHAT ARE THE STAFF AND INTERVENOR RECOMMENDATIONS WITH
20 RESPECT TO LTI COMPENSATION?

21 A. Staff witness Stark and OPUC witness Cannady are not requesting any further
22 adjustments to the Company's cost of service related to LTI compensation. However,

1 CARD witness M. Garrett recommends changing the Commission's practice with
2 respect to the Companies' RSUs to remove the entire RSU portion of both the direct
3 SWEPCO expense and the AEPSC expense from the Company's cost of service.

4 Q. WHY DOES WITNESS M. GARRETT RECOMMEND EXCLUDING RSU
5 EXPENSE FROM THE COMPANY'S COST OF SERVICE?

6 A. He states that he believes the Companies' RSUs are tied to the financial performance
7 of the Company,⁸ "because the value of the RSU is directly tied to the value of the
8 Company's common stock."⁹

9 Q. DO YOU AGREE WITH THIS RATIONALE?

10 A. No. The Company's RSUs do not have any metrics, goals or measures of any sort and,
11 while they are denominated in AEP stock, the impact that management may have on a
12 company's stock price is much attenuated. RSUs are designed to provide management
13 continuity by vesting stock rights after a certain number of years of service.

14 Furthermore, the Company's RSUs have not been changed in any material
15 respect and the associated expense has been allowed by the Commission in several
16 prior rate cases for AEP affiliates, including SWEPCO's last base rate case (Docket
17 No. 46449).

18 Q. WHAT OTHER REASONS DOES WITNESS M. GARRETT CITE IN SUPPORT OF
19 HIS RECOMMENDATION TO CHANGE THE COMMISSION'S FINDING IN
20 SWEPCO'S LAST RATE CASE THAT RESTRICTED STOCK UNITS ARE NOT
21 FINANCIALLY-BASED?

⁸ M. Garret Direct, p. 25, lines 5-7

⁹ *Id.*, lines 7-8

1 A. He believes that “employee payments made in stock are financial-based per se,
2 especially those awards that vest over time, since they are specifically designed to align
3 the interests of the employee with the financial interests of the company.”¹⁰ Witness
4 M. Garrett also asserts that “Virtually all commissions agree with this proposition, and
5 as such, the Commission’s decision to allow recovery of financially-based RSU costs
6 is incongruent with its other long-standing policies for the treatment of financially-
7 based incentives.”¹¹

8 Q. DO YOU AGREE WITH THESE ASSERTIONS?

9 A. No. As I previously stated the impact that management may have on a company’s stock
10 price is much attenuated, particularly for utility executives. Therefore, RSUs would be
11 ineffective if they were “specifically designed to align the interests of the employee
12 with the financial interests of the company” as M. Garrett suggests. Instead, AEP’s
13 RSUs are used as a retention incentive to foster management continuity, which is an
14 objective that RSUs can and do often effectively achieve.

15 Furthermore, even if the Commission were to agree with M. Garrett’s assertion
16 with respect to RSU design objectives, the Commission should recognize that such
17 ineffective design objectives do not create any incentive or cause any actions that are
18 contrary to customers’ interests or that predominantly benefit shareholders.

19 While it may be true that commissions in western U.S. states generally disallow
20 all LTI compensation, my experience in largely eastern states is varied. Furthermore,
21 M. Garrett’s statement that virtually all commissions agree with the proposition that

¹⁰ *Id.*, lines 13-14.

¹¹ *Id.*, lines 14-17.

1 employee payments made in stock are financial-based per se¹² is unsupported and
2 questionable. It is unlikely that any commission has agreed with this specific statement
3 or anything similar in an official capacity, let alone all commissions or even all western
4 commissions.

5 Q. ARE THERE ADDITIONAL REASONS M. GARRETT CITES TO SUPPORT HIS
6 RECOMMENDATION TO ELIMINATE COST RECOVERY FOR RSU EXPENSE?

7 A. Yes, several. He asserts that “incentive compensation payments to officers, executives
8 and key employees of a utility are generally excluded for ratemaking purposes.”¹³
9 However, it is not the Commission’s practice to remove incentive compensation
10 expense for officers, executives, or other key employees. The proposed reductions in
11 STI expense for all employees and RSU expense for approximately 1,250 employees
12 are both greatly disproportional to this concern.

13 M. Garrett goes on to assert that “since officers of any corporation have
14 fiduciary duties of loyalty and care to the corporation itself and not to the customers of
15 the company, these individuals are required to put the interests of the company first.”¹⁴
16 To the contrary, the fiduciary duties of loyalty and care that witness M. Garrett cites
17 are not relevant because they require officers to put the Company’s interests ahead of
18 their own but not ahead of customer interests and, in any event, RSUs do not create any
19 incentive other than a retention incentive to continue working for the company through
20 the RSU vesting dates.

¹² M. Garrett Direct, p. 28, line 12-15

¹³ M. Garrett Direct, p. 25, lines 19-20.

¹⁴ Id., lines 20-22

1 Witness M. Garrett also portrays a “natural divergence” of interest between
2 shareholders and customers. This is a false dichotomy and again irrelevant with respect
3 to RSUs because the retention and management continuity the RSUs provide are
4 beneficial to both customers and shareholders, and RSUs do not create any incentive
5 other than a retention incentive.

6 Witness M. Garrett also asserts that because RSUs are denominated in AEP
7 stock and tied over a long period of time to AEP’s stock price, they motivate employees
8 to make business decisions from the perspective of long-term shareholders.¹⁵ However,
9 as previously discussed, the much attenuated impact that management may have on a
10 company’s stock price make RSUs an ineffective incentive or motivator for such
11 decisions and the only real incentive RSUs create is a retention incentive.

12 M. Garrett also disagrees that the target level of RSU compensation should be
13 recovered in rates because it is an integral part of a market-competitive compensation
14 package.¹⁶ He argues that because most commissions do not allow cost recovery of
15 long-term incentive compensation, its disallowance would not put the Company at a
16 competitive disadvantage. This argument is inaccurate for several reasons. First, I have
17 not argued that the revenue short-fall resulting from the disallowance of RSU expense
18 would put the Companies at a competitive disadvantage. The revenue short-fall is not
19 large enough to do so, although such a disallowance would make it more difficult for
20 the Company to earn the rate of return established by the Commission in this case.
21 However, reducing of the value of the Companies’ market-competitive compensation

¹⁵ Id , p. 26, lines 5-7.

¹⁶ Id., lines 14-17.

1 package, of which RSUs are an integral component, would put AEP at a competitive
2 disadvantage with respect to attracting and retaining suitably skilled and experienced
3 employees.

4 Second, the Companies compete for such suitably skilled and experienced
5 employees with employers from many other industries, not just the utility industry,
6 particularly for roles that participate in long-term incentive compensation. Therefore,
7 competition with other utilities for such positions is only a small part of the daily battle
8 to attract and retain employees.

9 Third, M. Garrett's argument ignores the substantial benefits the provision of
10 market-competitive compensation provides to customers by enabling the Companies to
11 attract and retain the suitably skilled and experienced employees needed to provide
12 service to customers efficiently and effectively.

13 V. ATTENDANT IMPACTS OF STI AND LTI REDUCTIONS

14 Q. DO WITNESSES STARK, CANNADY AND M. GARRETT RECOMMEND
15 REMOVING ATTENDANT PAYROLL TAXES RELATED TO THEIR
16 PROPOSED REDUCTIONS TO THE COMPANY'S COST OF SERVICE
17 RELATED INCENTIVE COMPENSATION?

18 A. Yes.

19 Q. IN THE EVENT THAT THE COMMISSION AGREES WITH ANY OF THESE
20 WITNESSES' PROPOSED REDUCTIONS FOR ANY OF THE REASONS THEY
21 CITED, DO YOU AGREE THAT THE ATTENDANT PAYROLL TAX SHOULD
22 ALSO BE REMOVED AND, IF NOT, WHY NOT?

1 A. No, I do not agree that attendant payroll taxes should also be removed. The rationale
2 for the exclusion of financially based incentive compensation is that it “most
3 immediately and predominantly” benefits shareholders, not customers. No witness has
4 challenged the reasonableness of the Company’s compensation from a cost or market-
5 competitive compensation perspective in this case. As such, this compensation is a just
6 and reasonable cost of doing business as part of a reasonable market-competitive
7 compensation package, without which the Company would not be able to attract,
8 motivate, engage and retain the employees it needs to efficiently and effectively
9 provide service to customers. If the company were to reduce or eliminate incentive
10 compensation, financially based or otherwise, it would need to offset this compensation
11 with additional base pay in order to maintain the market-competitiveness of the
12 Companies’ compensation and avoid the hit to employee morale and the excessive
13 attrition that such a reduction in compensation would cause. Therefore, the Companies
14 would still incur the attendant payroll and other taxes on the additional base wages, in
15 lieu of incurring it on wages paid in the form of incentive compensation. Therefore,
16 these taxes should not be removed from the Company’s cost of service, even if the
17 Commission reduces the Company’s requested cost of service with respect to incentive
18 compensation.

19 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

20 A. Yes, it does.